KPMG

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Independent Auditors' Report

Division of Retirement and Benefits and
Members of the Alaska Teachers' Retirement Board
State of Alaska Teachers' Retirement System:

We have audited the accompanying combining statements of plan net assets of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, as of June 30, 2000 and 1999, and the related combining statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combining financial statements referred to above present fairly, in all material respects, the plan net assets of the State of Alaska Teachers' Retirement System, A Component Unit of the State of Alaska, as of June 30, 2000 and 1999, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information on pages 28 to 32 and additional information on pages 33 and 34 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This information is the responsibility of the Plan's management, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

September 21, 2000

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Combining Statements of Plan Net Assets
(000s omitted)

June 30, 2000 and 1999

	2000			1999		
	Pension	Postemployment Healthcare	Total	Pension	Postemployment Healthcare	Total
Assets:						
Cash and cash equivalents (notes 3 and 4)						
Short-term fixed income pool	$ 500	112	612	227	50	277
Receivables:						
Contributions	13,549	3,036	16,585	6,945	1,536	8,481
Retirement incentive program employer contributions (note 6)	6,994	1,567	8,561	11,212	2,479	13,691
Due from State of Alaska General Fund	-	-	-	160	35	195
Total receivables	20,543	4,603	25,146	18,317	4,050	22,367
Investments, at fair value (notes 3 and 4):						
Domestic equity pool	1,541,916	391,379	1,933,295	1,434,738	368,002	1,802,740
Retirement fixed income pool	874,540	195,983	1,070,523	991,787	219,265	1,211,052
International equity pool	667,801	149,653	817,454	554,822	122,660	677,482
Real estate pool	200,656	44,967	245,623	135,038	29,853	164,891
International fixed income pool	172,328	38,618	210,946	178,585	39,482	218,067
Private equity pool (note 7)	70,902	15,889	86,791	18,408	4,070	22,478
Emerging markets equity pool	42,955	9,626	52,581	36,026	7,965	43,991
External domestic fixed income pool	36,514	8,183	44,697	34,738	7,680	42,418
Total investments	3,607,612	854,298	4,461,910	3,384,142	798,977	4,183,119
Loans and mortgages, at fair value, net of allowance for loan losses of $216 in 2000 and $360 in 1999	433	97	530	1,074	237	1,311
Total assets	3,629,088	859,110	4,488,198	3,403,760	803,314	4,207,074
Liabilities:						
Accrued expenses	2,508	562	3,070	2,502	553	3,055
Due to State of Alaska General Fund	180	41	221	-	-	-
Alaska Department of Commerce settlement liability	4	1	5	-	-	-
Total liabilities	2,692	604	3,296	2,502	553	3,055
Net assets held in trust for pension and postemployment healthcare benefits	**$3,626,396**	**858,506**	**4,484,902**	**3,401,258**	**802,761**	**4,204,019**

(Schedules of funding progress are presented on pages 28 and 29)

See accompanying notes to combining financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Combining Statements of Changes in Plan Net Assets
(000s omitted)

June 30, 2000 and 1999

	2000			1999		
	Pension	Postemployment Healthcare	Total	Pension	Postemployment Healthcare	Total
Additions:						
Contributions:						
Employers	$51,183	11,470	62,653	50,352	11,132	61,484
Employees	38,728	8,679	47,407	39,096	8,643	47,739
Retirement Incentive Program - Employers (note 6)	9,853	2,208	12,061	3,916	866	4,782
Retirement Incentive Program - Employees (note 6)	897	201	1,098	461	102	563
Total contributions	100,661	22,558	123,219	93,825	20,743	114,568
Investment income:						
Net appreciation in fair value of investments (note 3)	217,207	48,675	265,882	210,928	46,632	257,560
Interest	78,298	17,546	95,844	84,412	18,662	103,074
Dividends	44,831	10,047	54,878	37,025	8,186	45,211
Net recognized mortgage loan recovery	113	26	139	615	136	751
	340,449	76,294	416,743	332,980	73,616	406,596
Less investment expense	8,279	1,855	10,134	7,450	1,647	9,097
Net investment income	332,170	74,439	406,609	325,530	71,969	397,499
Other	-	-	-	1	-	1
Total additions	432,831	96,997	529,828	419,356	92,712	512,068
Deductions:						
Benefits paid	202,927	40,183	243,110	187,085	30,987	218,072
Refunds to terminated employees	3,364	754	4,118	2,858	632	3,490
Administrative expenses	1,402	315	1,717	1,410	312	1,722
Total deductions	207,693	41,252	248,945	191,353	31,931	223,284
Net increase	225,138	55,745	280,883	228,003	60,781	288,784
Net assets held in trust for pension and postemployment healthcare benefits:						
Balance, beginning of year	3,401,258	802,761	4,204,019	3,173,255	741,980	3,915,235
Balance, end of year	**$3,626,396**	**858,506**	**4,484,902**	**3,401,258**	**802,761**	**4,204,019**

See accompanying notes to combining financial statements.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

(1) DESCRIPTION

The following brief description of the State of Alaska Teachers' Retirement System (Plan), A Component Unit of the State of Alaska, is provided for general information purposes only. Participants should refer to the Plan agreement for more complete information.

(a) General

The Plan is a defined benefit, cost-sharing, multiple employer public employee retirement system established and administered by the State of Alaska (State) to provide pension and postemployment healthcare benefits for teachers and other eligible participants. Benefit and contribution provisions are established by State law and may be amended only by the State Legislature. The Plan is considered a component unit of the State financial reporting entity and is included in the State's financial reports as a pension trust fund.

At June 30, 2000 and 1999, the number of participating local government employers was:

School districts	53
Other	7
Total employers	**60**

Inclusion in the Plan is a condition of employment for permanent school district, University of Alaska and State Department of Education employees who meet the eligibility requirements for participation in the Plan. At June 30, 1999 and 1998, the dates of the most recent actuarial valuations, Plan membership consisted of:

	1999	1998
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to future benefits	7,636	7,043
Current employees:		
Vested	5,256	5,285
Nonvested	4,140	3,977
	9,396	9,262
	17,032	**16,305**

(b) Pension Benefits

Vested employees hired prior to July 1, 1990, are entitled to pension benefits beginning at normal retirement age, fifty-five, or early retirement age, fifty. For employees hired after June 30, 1990, the normal and early retirement ages are sixty and fifty-five, respectively. Employees may also retire at any age and receive a normal benefit when they accumulate the required credited service.

The normal annual pension benefit is based on years of service and the average base salary. The average base salary is based upon the employee's three highest years salaries.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

The benefit related to all years of credited service prior to July 1, 1990 and for years of service through a total of twenty years is equal to 2% of the employee's average base salary. The benefit for each year over twenty years of service subsequent to June 30, 1990, is equal to 2-1/2% of the employee's base salary.

Minimum benefits for employees eligible for retirement are $25 per month for each year of credited service.

Married members must receive their benefits in the form of a joint and survivor annuity unless their spouses consent to another form of benefit, another person is eligible for benefits under a qualified domestic relations order or benefits are payable under the 1% supplemental contributions provision.

The Plan has two types of post-retirement pension adjustments (PRPA). The automatic PRPA is issued annually to all eligible benefit recipients when the cost of living increases in the previous calendar year. The automatic PRPA increase is paid beginning July 1 of each year. The discretionary PRPA may be granted to eligible recipients by the Plan Administrator, if the cost of living in the previous calendar year rises and the financial condition of the Plan permits. If both an automatic and discretionary PRPA are granted, and a retiree is eligible for both adjustments, the one that provides the retiree the greater increase will be paid.

(c) Postemployment Healthcare Benefits

When pension benefits begin, major medical benefits are provided without cost to (1) all employees first hired before July 1, 1990, and (2) employees who are disabled or age sixty-five or older, regardless of their initial hire dates. Employees first hired after June 30, 1990, may receive major medical benefits prior to age sixty-five by paying premiums.

Prior to July 1, 1997, postemployment healthcare benefits were provided by the payment of premiums to an insurance company. Beginning July 1, 1997, the Retiree Health Fund (RHF), an internal service fund of the State, was established. The RHF is self-funded and provides major medical coverage to retirees of the Plan. Retirees of three other State retirement plans also participate in the RHF. The Plan, along with the other participating plans, retains the risk of loss of allowable claims. Each year, RHF issues a publicly available financial report which may be obtained by writing to the State of Alaska, Department of Administration, Division of Retirement and Benefits, P.O. Box 110203, Juneau, Alaska, 99811-0203 or by calling (907) 465-4460.

(d) Death Benefits

When benefits are payable under the 1% supplemental contribution provision, the employee's spouse is eligible for a spouse's pension if there is/are no dependent child(ren). If there is/are dependent child(ren), a survivor's allowance may be payable to the employee's spouse, or

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

guardian of the dependent child(ren). The amount of the pension or allowance is determined by the employee's base salary. Employees first hired after June 30, 1982, are not eligible to participate in this provision.

If an active employee dies from occupational causes, the spouse may receive a monthly pension from the Plan. When death is due to occupational causes and there is no surviving spouse, the employee's dependent child(ren) may receive a monthly pension until they are no longer dependents. The amount of the occupational death pension changes on the date the employee's normal retirement would have occurred if the employee had lived. The new benefit is based on the employee's average base salary at the time of death and the credited service that would have accrued had the employee lived and continued to work until normal retirement. If benefits are payable under the 1% supplemental contribution provision, benefits are not payable under this provision. If the death was from nonoccupational causes, and the employee was vested, the spouse may receive a monthly survivor benefit based on a 50% joint and survivor option. If the employee is not married or vested, a lump sum death benefit is payable to the named beneficiary(ies).

(e) Disability Benefits

If an employee has been in membership service for five or more years for which contributions have been made, is not eligible for normal retirement benefits and becomes permanently disabled, the employee is entitled to a monthly benefit. The annual disability benefit is equal to 50% of the base salary at the time of the disability plus an additional 10% of his/her base salary for each dependent child up to a maximum of four children. At normal retirement age, a disabled employee receives normal retirement benefits.

(f) Contributions

Employee Contributions

Employees contribute 8.65% of their base salary as required by statute. The employee contributions are deducted before federal tax is withheld. Eligible employees contribute an additional 1% of their salary under the supplemental contribution provision. Contributions are collected by employers and remitted to the Plan and may be voluntarily or, under certain circumstances, involuntarily refunded to the employee or a garnishing agency sixty days after termination of employment. Employee contributions earn interest at the rate of 4.5% per annum, compounded annually.

Employer Contributions

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay both pension and postemployment healthcare benefits when due. Employer contribution rates are level percentages of payroll and are determined using the projected unit credit actuarial funding method. The Plan uses the level dollar method to amortize the unfunded

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

liability or funding surplus over a rolling twenty-five year period.

(g) Administrative Costs

Administrative costs are financed through investment earnings.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which they are due. Benefits and refunds are recognized when due and payable.

(b) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

(c) GASB Statements No. 25 and No. 26

Governmental Accounting Standards Board (GASB) Statements No. 25 and No. 26 require that plan net assets be split between pension and postemployment healthcare. To meet these requirements, plan assets, liabilities, revenues and expenses not specifically identifiable to either plan are allocated to the pension and postemployment healthcare plans based on their proportionate share of actuarial accrued liabilities.

(d) Investments

Security transactions and any resulting gains or losses are accounted for on a trade date (ownership) basis.

Investments are recorded at fair value. Fair value is "the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller – that is, other than in a forced or liquidation sale."

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the end of the year and the beginning of the year, less purchases of investments at cost, plus sales of investments at fair value.

Investment expense consists of those administrative expenses directly related to the Plan's investment operations.

Real estate investments include commingled real estate equities, separate account limited partnerships, mortgage loans and other real estate acquired by foreclosure and judgments. Commingled real estate equities and separate account limited partnerships are valued quarterly

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

by public market quotations, where a quoted market exists, or by independent appraisers, and are periodically adjusted by trustees of the investments when market conditions change. The cost of commingled real estate equities and separate account limited partnerships securities is determined on the average cost basis. Mortgage loans are valued at their principal balance (cost) less an allowance for loan loss, the net result of which approximates fair value. The allowance for loan loss is considered by management to be sufficient to cover any losses to the mortgage loan portfolio. Real estate acquired by foreclosure and judgments is carried at estimated net realizable value.

Venture capital investments in the private equity pool are comprised of limited partnerships in privately held companies of which equity ownership is not traded on a national or international exchange. Investments in the private equity pool are valued quarterly by the general partners and investment sponsors. The private equity oversight manager is held to a standard of reasonable care in verifying that the general partners' valuations reasonably reflect the underlying value of the investments. The cost of investments in the private equity pool is determined on the average cost basis.

The Plan holds shares, rather than specific securities, in the emerging markets equity pool, a closed-end mutual fund-like commingled equity investment pool. Underlying securities within the pool are priced on the last business day of each week and each month. Equity securities are valued using the last reported sale price on the exchange on which the securities are traded as of the close of business on the day the securities are being valued, or, in the absence of any sales price, at the last reported bid price. Fixed income securities are valued at prices obtained from a bond pricing service when such prices are available; otherwise, such securities are valued at the mid-point between the bid and asked price or at prices for securities of comparable maturity, quality and type. Short-term securities with 60 days or less to maturity are amortized to maturity based on cost. Securities expressed in terms of foreign currencies are translated into U.S. dollars at the prevailing market rates. Forward currency contracts are valued at the mid-point of representative quoted bid and asked prices. Securities and assets for which representative market quotations are not readily available are valued at fair value as determined in good faith under policies approved by the commingled equity fund's board of directors.

The fair value of all other debt and equity securities is determined by the custodial agent each business day. The custodian determines fair value using pricing services or prices quoted by one or more independent brokers. Equity securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, if applicable, defaulting to current bid price if a particular security was not traded that day. Fair value of debt securities has been established as the midpoint between the bid and asked prices. The cost of debt and equity investments is determined on the average cost basis.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

(e) Contributions Receivable

Contributions from employees and employers for service through June 30 are accrued. These contributions are considered fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

(f) Federal Income Tax Status

The Plan purports to be a qualified plan under Section 401(a) of the Internal Revenue Code and is exempt from federal income taxes under Section 501(a).

(3) INVESTMENTS

GASB Statement No. 3 requires a disclosure regarding custodial credit risk to indicate the chance of loss in the event a financial institution or third party holding the Plan's deposits or securities fails. Deposits and those investments represented by specific, identifiable securities are classified into three categories of credit risk: Category 1 – Insured or registered, or securities held by the State or its custodian in the State's name; Category 2 – Uninsured or unregistered, with securities held by the counterparty's trust department (if a bank) or agent in the State's name; and Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department (if a bank) or agent, but not in the State's name. Category 1 is the highest level of safekeeping security as defined by GASB.

At June 30, 2000 and 1999, the Plan's cash and cash equivalents and investments other than mortgage-related assets are represented by participation in investment pools rather than specific, identifiable securities. Although pooled investments represent the Plan's share of ownership in the pool rather than ownership of specific securities, all of the underlying securities in the pools in which the Plan participates are considered to be Category 1 as defined by GASB Statement No. 3, except: (A) investments in the mutual fund-like emerging markets equity pool which are considered to be Category 2, and (B) shares in the private equity pool and the real estate pool which, like the Plan's mortgage-related assets, are not transferable financial instruments and therefore cannot be categorized with regard to custodial credit risk.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

The cost and fair value of the Plan's investments at June 30, 2000 and 1999 are as follows:

	Cost	Fair Value
2000:		
Domestic equity pool	$ 1,421,609	1,933,295
Retirement fixed income pool	1,106,222	1,070,523
International equity pool	728,583	817,454
Real estate pool	232,875	245,623
International fixed income pool	233,522	210,946
Private equity pool	73,015	86,790
Emerging markets equity pool	48,569	52,581
External domestic fixed income pool	44,821	44,697
	$ 3,889,216	**4,461,909**
1999:		
Domestic equity pool	$ 1,249,977	1,802,740
Retirement fixed income pool	1,241,871	1,211,052
International equity pool	614,882	677,482
International fixed income pool	229,635	218,067
Real estate pool	153,180	164,891
Emerging markets equity pool	47,691	43,991
External domestic fixed income pool	42,045	42,418
Private equity pool	23,475	22,478
	$ 3,602,756	**4,183,119**

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

During 2000 and 1999, the Plan's investments (including investments bought, sold, as well as held during the year) appreciated (depreciated) in value as follows:

	2000	1999
Investments measured by quoted fair value in an active market:		
Domestic equity pool	$161,050	234,905
Retirement fixed income pool	(32,897)	(59,881)
International equity pool	125,337	71,966
Real estate pool	2,010	6,157
International fixed income pool	(19,143)	(2,872)
Private equity pool	22,162	(998)
Emerging markets equity pool	7,713	7,866
External domestic fixed income pool	(350)	417
	$265,882	257,560

Based on the Plan's percentage of ownership in each investment pool as of June 30, 2000 and 1999, the Plan held no individual investments which exceeded 5% of net assets held in trust for pension and postemployment healthcare benefits.

The Alaska State Pension Investment Board (ASPIB) has statutory oversight of the Plan's investments and the authority to invest the Plan's monies. As the fiduciary, ASPIB has the statutory authority to invest the assets under the Prudent Investor Rule. Alaska Statute provides that investments shall be made with the judgment and care under circumstances then prevailing that an institutional investor of ordinary professional prudence, discretion and intelligence exercises in managing large investment portfolios. Actual investing is performed by the investment officers of the Division of Treasury of the Department of Revenue or by contracted external investment managers.

(4) POOLED INVESTMENTS

(a) Short-Term Fixed Income Pool

The Plan, along with other State funds and retirement systems, participates in an internally managed short-term fixed income pool, which was established March 15, 1993, with a start up unit price of $1 per share. Each participant owns shares in the pool, the number of which fluctuates daily with contributions, withdrawals and income. A share price of $1 is maintained, giving each participant one share for every dollar invested in the short-term fixed income pool. The assets of the short-term fixed income pool are comprised of money market instruments, U.S. Treasuries, U.S. Government agency debt, corporate debt and other U.S. dollar denominated bonds.

At June 30, 2000 and 1999, the Plan has a .03% and .02% direct ownership in the short-term fixed income pool totaling $612 and $277 respectively. These amounts include interest receivable of $39 and $25, respectively.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

(b) Domestic Equity Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic equity pool. The pool was established July 1, 1991, with a start up unit price of $1,000 per share. All income, including interest, dividends and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested.

At June 30, 2000 and 1999, the Plan's investment in the domestic equity pool totaled 33.82% and 33.85%, respectively, and consisted of the following:

	2000	1999
Domestic equity securities	$1,887,184	1,732,160
Available cash held in the short-term fixed income pool, and other short-term debt instruments and currency	46,721	73,386
Net payables	(610)	(2,806)
	$1,933,295	**1,802,740**

(c) Retirement Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed retirement fixed income pool. The pool was established March 1, 1996, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the date of the transaction.

At June 30, 2000 and 1999, the Plan's investment in the retirement fixed income pool totaled 32.56% and 33.54%, respectively, and consisted of the following:

	2000	1999
Corporate	$ 254,801	398,520
U.S. Treasury	218,042	394,092
U.S. Government agency	104,087	147,900
Mortgage related	320,816	101,067
Asset backed	12,175	12,654
Yankees	131,180	125,823
Available cash held in the short-term fixed income pool	185,069	5,629
Net receivables (payables)	(155,647)	25,367
Total	**$1,070,523**	**1,211,052**

(d) International Equity Pool

The Plan, along with three other State retirement systems, participates in an externally

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

managed international equity pool. The pool was established January 1, 1992, with a start up unit price of $1,000 per share. Each manager may independently determine the allocation between equities and short-term debt instruments. All income, including interest, dividends and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested.

At June 30, 2000 and 1999, the Plan's investment in the international equity pool totaled 33.79% and 34.12%, respectively, and consisted of the following:

	2000	1999
International equity securities	$ 789,763	647,330
Available cash held in short-term debt instruments and foreign currency	25,821	26,779
Net receivables	1,870	3,373
	$ 817,454	**677,482**

(e) Real Estate Pool

The Plan, along with one other State retirement system, participates in an externally managed real estate pool. The pool was established June 27, 1997, with a start up unit price of $1 per share. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest, income from operations, and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis. All income is reinvested except for cash distributions which are transferred to the retirement fixed income pool based on a pro rata ownership in the originating pool.

At June 30, 2000 and 1999, the Plan has a 34.43% direct ownership in the real estate pool totaling $245,623 and $164,891 respectively.

(f) International Fixed Income Pool

The Plan, along with one other State retirement system, participates in an externally managed international fixed income pool. The pool was established March 3, 1997, with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

At June 30, 2000 and 1999, the Plan's investment in the international fixed income pool totaled 34.38% and consisted of the following:

	2000	1999
International fixed income securities	$ 202,700	209,614
Available cash held in short-term debt instruments and foreign currency	1,543	3,248
Net receivables	6,703	5,205
	$ 210,946	**218,067**

(g) Private Equity Pool

The Plan, along with one other State retirement system, participates in an externally managed private equity pool. The pool was established April 24, 1998, with a start up unit price of $1,000 per share. Ownership in the pool is based on the number of shares held by each participant. Underlying assets in the pool are composed of venture capital, buyouts and special situation investments through limited partnership agreements. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction. All income, including interest and realized and unrealized gains and losses, is allocated monthly to each participant on a pro rata ownership basis and is reinvested.

At June 30, 2000 and 1999, the Plan has a 34.50% direct ownership in the private equity pool totaling $86,790 and $22,478.

(h) Emerging Markets Equity Pool

The Plan, along with one other State retirement system, participates in an emerging markets equity pool. The pool was established May 2, 1994, with a start up unit price of $1,000 per share. The pool participates in two externally managed commingled investment funds through ownership of equity shares. The commingled funds, comprised of various institutional investors, invest in the equity markets of developing countries.

At June 30, 2000 and 1999, the Plan had a 35.00% ownership in the pool totaling $52,581 and $43,991, respectively.

(i) External Domestic Fixed Income Pool

The Plan, along with three other State retirement systems, participates in an externally managed domestic fixed income pool. The pool was established June 25, 1999 with a start up unit price of $1,000 per share. The net asset value per share is determined by dividing the total fair value of the net assets of the pool by the number of units of the pool outstanding on the valuation date. Ownership in the pool is based on the number of shares held by each participant. Contributions to and withdrawals from the pool are based on the net asset value per share on the day of the transaction.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

At June 30, 2000 and 1999, the Plan had a 33.59% ownership in the pool and consisted of the following:

	2000	1999
Corporate	$ 8,706	1,947
U.S. Treasury	5,964	19,032
U.S. Government agency	2,187	1,533
Municipal	502	-
Asset backed	3,507	-
Mortgage related	22,668	11,871
Yankees	334	-
Available cash held in short-term debt instruments	8	21,166
Net receivables (paybles)	821	(13,131)
	$ 44,697	**42,418**

(5) FOREIGN EXCHANGE CONTRACTS AND OFF-BALANCE SHEET RISK

The Plan, through its investment in the international equity pool, entered into foreign currency forward contracts to buy and sell specified amounts of foreign currencies at specified rates on specified future dates for the purpose of hedging existing security positions in these currencies. The maturity periods for these contracts range from one to three months. The Plan had net unrealized gains with respect to such contracts, calculated using forward rates at June 30, as follows:

	2000	1999
Net contract sales	$ 6,362	13,889
Less: fair value	6,353	13,727
Net unrealized gains on contracts	**$ 9**	**162**

The counterparties to the foreign currency forward contracts consist of a diversified group of financial institutions. The Plan is exposed to credit risk to the extent of non-performance by these counterparties; however, the Plan considers the risk of default to be remote. The Plan's market risk is limited to the difference between contractual rates and forward rates at the balance sheet date.

(6) RETIREMENT INCENTIVE PROGRAM

House Bill 354 (Chapter 65, SLA 96) was passed on June 18, 1996, and provides for a retirement incentive program (RIP or program) for members of school district employers and employees of Mt. Edgecumbe and the Alaska Vocational Technical Center. The RIP encourages eligible employees to retire up to three years earlier than they had planned as a cost savings for school districts. The incentive program may be implemented if the program will produce an

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

overall cost savings to the employer. The application and retirement deadlines are determined by the employer when they establish a program. The original application period for school district employees under House Bill 354 was June 30, 1996 through December 31, 1996. During fiscal year 1997, Senate Bill 130 (Chapter 92, SLA 97) was passed which amended the original program. Senate Bill 130 allowed for additional application periods of 30-60 days, ending no later than June 30, 1999.

Employers who participate in the RIP are required to reimburse the Plan for the actuarial equivalent of the difference between the benefits each employee receives after the addition of the retirement incentive under the program and the amount the employee would have received without the incentive, less any amount the employee was indebted as a result of retiring under the program. Reimbursements from employers are due in minimum equal annual installments so that the entire balance is paid within three years after the end of the fiscal year in which each employee retires.

Employers are also required to reimburse the Plan for the estimated costs of administering the program. The Plan establishes a receivable for employer reimbursements and administrative costs as employees retire. During fiscal years 2000 and 1999, the Plan recognized $12,061 and $4,782, respectively, of additions to plan net assets for contributions from employers for required reimbursements related to the RIP.

When employees terminate employment to participate in the program, they are indebted to the Plan for 25.95% of their annual compensation for the calendar year in which they terminate. Any outstanding indebtedness at the time an employee is appointed to retirement results in an actuarial adjustment of his/her benefit amount. During fiscal years 2000 and 1999, the Plan recognized $1,098 and $563, respectively, of additions to plan net assets for contributions from employees related to the RIP.

(7) COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Plan, through its investment in the private equity pool, entered into agreements through an external investment manager to provide capital funding for limited and general partnerships as it continues to build a private equity portfolio. At June 30, 2000, the Plan's share of these unfunded commitments totaled $88,047 to be paid through the year 2005.

(b) Contingencies

The Plan is a defendant in four similar lawsuits, three of which are class action suits. The lawsuits pertain to whether recent changes to the retiree health insurance program under the Plan resulted in violations of members' constitutional rights to retirement benefits. The Plan will vigorously contest these suits. An unfavorable outcome could result in the Plan having to rescind certain changes to the retiree health insurance program.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Combining Financial Statements
(000s omitted)

June 30, 2000 and 1999

The State is a defendant in a lawsuit filed by the Alaska Civil Liberties Union and six same-sex couples with regards to the statutes limiting retiree health insurance coverage to retirees and their spouses and dependents, thus excluding coverage for domestic partners of retirees. An adverse ruling against the State would increase the number of persons that would be covered by insurance paid by the Plan.

Although the ultimate outcome of the litigation discussed above is uncertain at this point in time, the Plan believes that unfavorable outcomes, if rendered, would not have a material adverse effect on its financial position or funding status. The Plan has not recorded an accrual related to the above lawsuits, because unfavorable outcomes in these matters are, in management's opinion, not considered probable but rather only possible, and the potential loss, if any, cannot be reasonably estimated at this time.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
June 30, 2000 and 1999

Schedule of Funding Progress
Pension Benefits
(000s omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
1994	$2,042,890	2,281,178	238,288	89.6%	476,098	50.1%
1995	2,178,011	2,396,911	218,900	90.9%	477,205	45.9%
1996	2,335,295	2,402,020	66,725	97.2%	465,182	14.3%
1997	2,563,693	2,728,050	164,357	94.0%	466,455	35.2%
1998	2,825,528	2,893,325	67,797	97.7%	469,433	14.4%
1999	3,120,951	3,043,509	(77,442)	102.5%	466,414	(16.6%)

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
June 30, 2000 and 1999

Schedule of Funding Progress
Postemployment Healthcare Benefits
(000s omitted)

Actuarial valuation year ended June 30	Actuarial value of plan assets	Actuarial accrued liabilities (AAL)	Unfunded actuarial accrued liabilities (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
1994	$ 430,067	480,231	50,164	89.6%	476,098	10.5%
1995	469,381	516,556	47,175	90.9%	477,205	9.9%
1996	523,461	538,417	14,956	97.2%	465,182	3.2%
1997	556,351	592,019	35,668	94.0%	466,455	7.6%
1998	620,542	635,432	14,890	97.7%	469,433	3.2%
1999	694,682	677,445	(17,237)	102.5%	466,414	(3.7%)

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Required Supplementary Information
June 30, 2000 and 1999

Schedule of Employer Contributions
Pension and Postemployment Healthcare Benefits
(000s omitted)

Year ended June 30	Pension annual required contribution	Postemployment healthcare annual required contribution	Total annual required contribution	Pension percentage contributed (note 3)	Postemployment healthcare percentage contributed (note 3)	Total percentage contributed (note 3)
1995	$55,126	11,694	66,820	90%	90%	90%
1996	52,262	11,346	63,608	96%	96%	96%
1997	62,831	14,170	77,001	80%	80%	80%
1998	62,787	13,717	76,504	80%	80%	80%
1999	44,142	9,759	53,901	114%	114%	114%
2000	55,448	12,426	67,874	92%	92%	92%

See accompanying notes to required supplementary information and independent auditors' report.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Information

June 30, 2000 and 1999

(1) DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

Each time a new benefit is added which applies to service already rendered, an "unfunded actuarial accrued liability" is created. Laws governing the Plan require that these additional liabilities be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to the unfunded actuarial accrued liability.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay increasing in dollar amounts resulting in unfunded actuarial accrued liabilities increasing in dollar amounts, all at a time when the actual value of these items, in real terms, may be decreasing.

(2) ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial valuation is prepared by William M. Mercer, Incorporated. The significant actuarial assumptions used in the valuation as of June 30, 1999 are as follows:

(a) Actuarial cost method – projected unit credit, unfunded accrued benefit liability or funding surplus amortized over a rolling twenty-five year period.

(b) Mortality basis – 1984 Unisex Pension Mortality Table set forward one year for male members and set backward four years for female members. All deaths are assumed to result from nonoccupational causes.

(c) Retirement age – retirement rates based on the 1991-1995 actual experience.

(d) Investment return – 8.25% per year, compounded annually, net of expenses.

(e) Health cost inflation – FY98 6.5% and FY99 and thereafter 5.5% per annum.

(f) Salary scale – inflation 4.0%, productivity 0.5%, merit (first five years) 1.0%, for a total of 5.5% per annum.

(g) Inflation – total inflation as measured by the Consumer Price Index for urban and clerical workers for Anchorage is assumed to increase 4% annually.

(h) Cost of living allowance (domicile in Alaska) – 62% of those benefit recipients who are eligible for the allowance are assumed to remain in Alaska and receive the allowance.

(i) Contribution refunds – 100% of those terminating after age thirty-five who are vested will leave their contributions in the Plan and thereby retain their deferred vested benefit. All others who terminate are assumed to have their contributions refunded.

(j) Turnover and disability assumptions are based upon the 1991-1995 actual experience of the Plan.

(k) Asset valuation method – recognized 20% of the investment gain or loss in each of the current and preceding four years. All assets

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Notes to Required Supplementary Schedules

June 30, 2000 and 1999

are valued at fair value. Valuation assets cannot be outside a range of 80% to 120% of the fair value of assets.

(l) Valuation of medical benefits for retirees – a pre-age sixty-five cost and lower post-age sixty-five cost (due to Medicare) are assumed such that the total rate for all retirees equals the present premium rate assumption. These medical premiums are then increased with the health cost inflation assumption.

The assumptions and methods, when applied in combination, fairly represent past and anticipated future experience of the Plan. The foregoing actuarial assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated benefits.

All significant accounting policies, benefit provisions and actuarial assumptions are the same for the required supplementary information and the financial statements except as follows:

- Effective June 30, 1994, there was a change in the economic actuarial assumptions and asset valuation method. The total inflation assumption was changed from 5% to 4% annually. This affected the economic assumptions, including investment return, salary scale and health cost trend. The revised asset valuation method smoothes the difference between expected investment return and actual return during a given year by spreading the results over five years by recognizing 20% of the investment gain or loss in each of the current and preceding four years.

- Effective June 30, 1996, the investment return was increased from 8% to 8.25% per year. Turnover, retirement and disability assumptions were revised based on actual experience in 1991-1995. The cost of living allowance was decreased from 66% to 62% participation. In addition, the amortization period for funding surpluses was changed from five years to a rolling twenty-five year period.

(3) ENHANCED ACTUARIAL PROJECTION SYSTEM

The Plan's actuary, at the request of the Teachers' Retirement Board, uses an enhanced actuarial projection system to determine annual employer contribution rates. Although the same actuarial cost method is used by the Plan's actuary, the enhanced system projects population growth patterns and their associated liabilities twenty-five years into the future.

The purpose of the enhanced actuarial projection system is to level out contribution rates in order to provide employers with a more stable long-term contribution pattern.

The Plan's utilization of the enhanced actuarial projection system resulted in 1994-1998 and 2000 employer contributions being less than the annual required contribution and 1999 employer contributions being more than the annual required contribution.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Administrative and Investment Expenses
(000s omitted)

Year ended June 30, 2000
with comparative totals for 1999

	Administrative expenses	Investment expenses	Totals 2000	Totals 1999
Personal services:				
Wages	$ 806	358	1,164	1,152
Benefits	273	107	380	377
Other	2	-	2	1
Total personal services	1,081	465	1,546	1,530
Travel:				
Transportation	25	33	58	57
Per diem	27	25	52	47
Moving	-	2	2	-
Honorarium	-	8	8	11
Total travel	52	68	120	115
Contractual services:				
Accounting and auditing	16	388	404	420
Management and consulting	77	8,934	9,011	7,871
Legal	11	15	26	31
Medical specialists	5	-	5	7
Data processing	170	16	186	271
Other professional services	86	46	132	149
Communications	76	22	98	86
Transportation	1	2	3	3
Advertising and printing	23	90	113	114
Repairs and maintenance	6	1	7	6
Rentals/leases	20	22	42	32
Other services	11	39	50	102
Total contractual services	502	9,575	10,077	9,092
Other:				
Equipment	63	19	82	54
Supplies	19	7	26	28
Total other	82	26	108	82
Total administrative and investment expenses	**$ 1,717**	**10,134**	**11,851**	**10,819**

See accompanying independent auditors' report.

STATE OF ALASKA
TEACHERS' RETIREMENT SYSTEM
(A Component Unit of the State of Alaska)

Schedule of Payments to Consultants
Other than Investment Advisors
(000s omitted)

Years ended June 30, 2000 and 1999

Firm	Services	2000	1999
State Street Bank and Trust Company	Custodian banking services	$ 579	474
The Retirement Concepts Group, Ltd.	Data processing consultants	101	62
Powertech Toolworks, Inc.	Data processing consultants	78	109
William M. Mercer, Inc.	Actuarial services	75	77
KPMG LLP	Auditing services	32	17
State of Alaska, Department of Law	Legal services	29	21
Wohlforth, Vassar, Johnson and Brecht	TRS Board legal services	11	12
		$ 905	**772**

See accompanying independent auditors' report.